

## Message Text

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PAGE 01 COLOMB 00653 130615Z

17

ACTION L-03

INFO OCT-01 NEA-10 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 /091 W

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R 121215Z MAR 74

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 636

INFO AMEMBASSY NEW DELHI

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EO 11652: N/A

TAGS: EAID, CE

SUBJ: MOV NEGOTIATIONS: SECOND MEETING, MARCH 11

DELHIPASS AID REGIONAL LEGAL ADVISOR O'DONNELL

REF A. COLOMBO 587 B. COLOMBO 635 C. STATE 11592 D. COLOMBO 584

1. SECOND MEETING WAS HELD IN OFFICE OF GSL TREASURY SECRETARY CHANDRA COOREY 11 MARCH WITH SAME ATTENDANCE AS MARCH 1 PLUS LEADER, STATE COUNTRY OFFICER FOR SRI LANKA.

2. COOREY PRESENTED GSL POSITION, READING FROM NOTE LATER HANDED AMB. FOLLOWING IS FULL TEXT (UNNECESSARY WORDS OMITTED):

QTE

SRI LANKA POSITION IS: (1) FEEC SCHEME CANNOT BE EQUATED WITH DEVALUATION IN ALL RESPECTS. IT IS AT MOTS SELECTIVE DEVALUATION. FEEC SCHEME INTRODUCED TO RESTRAIN IMPORTS AND STIMULATE EXPORT EARNINGS IN SELECTED AREAS. AROUND 50 PERCENT OF IMPORTS AND 65 PERCENT OF EXPORTS STILL UNAFFECTED BY FEEC SCHEME. FEECs IN SUPPORT OF OUTWARD REMITTANCES HAVE

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PAGE 02 COLOMB 00653 130615Z

TO BE PURCHASED BY SENDER AND PROCEEDS ARE CREDITED TO GOVERN-

MENT. THERE IS NO QUESTION OF CREDITOR OR PAYEE RECEIVING FEES ON LOAN TRANSACTIONS.

(2) THERE HAS BEEN NO UNIFORMITY IN REGARD TO INTENTION OR METHOD ADOPTED IN US LOAN AGREEMENTS FOR SECURING MAINTENANCE OF VALUE OF CURRENCY. WHERE LOANS HAVE BEEN MADE FROM RUPEE FUNDS GENERATED UNDER PL 480 SALES, IN SOME AGREEMENTS, LOAN WAS DENOMINATED IN RUPEES; IN OTHER LOAN AGREEMENTS, LOANS WERE DENOMINATED IN DOLLARS, THOUGH IN FACT LOANS WERE GRANTED OUT OF PL 480 RUPEE FUNDS; MOV CLAUSE IN SUCH AGREEMENT HAS TO BE DEALT WITHINDEPENDENTLY.

(3) IN ALL ICA LOANS, GOVERNMENT OF SRI LANKA HAS OPTION TO PAY EITHER IN DOLLARS OR RUPEES. IF REPAYMENT IS MADE IN DOLLARS, INTEREST PAYABLE WOULD BE AT LOWER RATE. ASSUMING SRI LANKA CHOOSES TO PAY IN DOLLARS, AND, ALSO ASSUMING USG WOULD REMIT EQUIVALENT AMOUNT IN DOLLARS FOR EMBASSY EXPENDITURE IN SRI LANKA, US EMBASSY WILL NOT GET FEES ON INWARD REMITTANCE. PAYMENT OF INSTALLMENTS, LOAN AND INTEREST,

AT NON-FEEC RATE, DOES NOT PLACE US EMBASSY IN ANY WORSE POSITION THAN REPAYMENT IN DOLLARS. ON OTHER HAND, PAYMENT OF FEEC RATE WILL MEAN BENEFIT TO US TO EXTENT OF FEES MERELY BECAUSE SRI LANKA IS NOT IN POSITION TO MAKE PAYMENT IN DOLLARS.

(4) THERE HAS BEEN NO INSTANCE WHERE GSL ADOPTED FEES RATE TO SETTLE OBLIGATIONS LOCALLY.

(5) REQUEST WE AGREE ON RATE, WHICH WE SUGGEST SHOULD BE OFFICIAL RATE, AS PROVIDED IN SECTION 3(B) OF THE AGREEMENT. UNQTE.

3. IN ELABORATING ON POINT 2 OF GSL PAPER, COOREY POINTED OUT THAT LOANS UNDER DISCUSSION, WHICH WERE DENOMINATED IN DOLLARS, WERE FOLLOWED IN TIME BY SEVERAL LOANS DENOMINATED IN RUPEES IN EARLY 60'S, AND THESE IN TURN WERE FOLLOWED BY PL 480 LOANS DENOMINATED IN DOLLARS AND REPAYABLE IN DOLLARS. IT THEREFORE APPEARED TO GSL THAT IN EARLIER CASES, THAT IS, THREE ICA LOANS AT ISSUE, DENOMINATION IN DOLLARS WAS MERELY FOR ADMINISTRATIVE CONVENIENCE. GSL, AT TIME OF SIGNING LOAN DOCUMENTS, LOGICALLY RECORDED AMOUNT OF LOAN AS LOCAL CURRENCY EQUIVALENT LIMITED OFFICIAL USE

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PAGE 03 COLOMB 00653 130615Z

OF DOLLAR DENOMINATION AT OFFICIAL RATE AT THE TIME. COOREY SAID UNITED STATES WAS ALSO ASKING GSL TO PAY MORE RUPEES THAN WERE AVAILABLE TO GSL ON TWO LOANS MADE FROM PL 480 SALES PROCEEDS. RE POINT 5 IN GSL STATEMENT, SECTION 3(B) OF ICA-X-83-3 AGREEMENT DATED 23 SEPT 1959, READS AS FOLLOWS: QTE: OTHERWISE, SUCH OTHER RATE AS IS MUTUALLY AGREED UPON FROM TIME TO TIME. UNQTE. COOREY ALSO REFERRED TO "JUST AND REASONABLE" OTHER RATE MENTIONED IN SECTION 3(A).

4. AMB COUNTERED POINT 1 OF GSL POSITION PAPER ON  
ISSUE OF SELECTIVITY OF FEEC APPLICATION BY STATING IT WAS  
HIS UNDERSTANDING GSL HAS AGREED SOME TIME AGO THAT THERE  
WAS DUAL RATE OF EXCHANGE IN EXISTENCE IN SRI LANKA AND THAT  
THIS HAD BEEN REAFFIRMED AT LAST MEETING.COOREY  
CONFIRMED AMB'S UNDERSTANDING. AMB RESERVED SUBSTANTIVE REPLY  
TO GSL STATEMENT UNTIL AFTER FURTHER STUDY.

5. AMB RESPONDED TO COOREY'S QUESTION AT MARCH 1 MEETING  
CONCERNING "MUTUAL AGREEMENT" LANGUAGE ON BASIS PARA 3. REF  
C, ADDING THAT IN ANY CASE LOGIC OF MOV CLAUSE DICTATED AGAINST  
GSL CONTENTION THAT "MUTUAL AGREEMENT" CLAUSE WOULD PERMIT  
DETERMINATION OF RATE OF EXCHANGE AT LEAST FAVORABLE LEVEL,  
THAT IS, OFFICIAL RATE.

6. IN RESPONSE TO AMB'S REQUEST FOR COMMENT FROM WASHINGTON  
STANDPOINT, LEADER AFFIRMED USG WAS MOST INTERESTED IN GETT-  
ING MOV QUESTION RESOLVED AS EXPEDITIOUSLY AS POSSIBLE IN MANNER  
SATISFACTORY TO BOTH SIDES.

7. NEXT MEETING WAS SET FOR 19 MARCH AT 1100.  
VAN HOLLEN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENTS, FOREIGN ASSISTANCE, DEVELOPMENT LOANS, NEGOTIATIONS, FOREIGN EXCHANGE HOLDINGS, FOREIGN EXCHANGE RATES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 MAR 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** MorefiRH  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974COLOMB00653  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** COLOMBO  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1974/newtext/t19740351/aaaabvsc.tel  
**Line Count:** 138  
**Locator:** TEXT ON-LINE  
**Office:** ACTION L  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** A. COLOMBO 587 B. COLOMBO 635 C. STA, TE 11592 D. COLOMBO 584  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** MorefiRH  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 AUG 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14-Aug-2002 by shawdg>; APPROVED <15-Aug-2002 by MorefiRH>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** MOV NEGOTIATIONS: SECOND MEETING, MARCH 11 DELHIPASS AID REGIONAL LEGAL ADVISOR O'DONNELL  
**TAGS:** EAID, CE  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005